

The 1963 report of the Vicksburg District found that the recreational use of Sardis Reservoir was restricted because of the lack of adequate dust-free access roads. The 1966 report apparently found that adequate roads had been provided but still found that the use of Sardis Reservoir was restricted because it was "an open body of water without significant embayments. Consequently, much of the time water is too rough for pleasure boating, skiing or fishing."

We noted this inconsistency between the 1963 and 1966 reports, and the staff of OCE stated that the Vicksburg District should have shown how many days during the recreation season the waters in Sardis Reservoir were too rough to permit boating, skiing, and fishing.

Our analysis also noted the existence of three other Corps of Engineers' reservoirs in the headwaters of the Yazoo River—Enid, Grenada, and Arkabutla—as well as Pickwick Lake on the Tennessee River. Because of the availability of the many alternative recreational areas—Federal, state, and county—we found that the Vicksburg District's report had not properly evaluated the effect of the alternative recreational areas on Sardis Reservoir's recreation potential. We also found that the personal income in this area could not support a unit value of \$1.25 per day, which, according to Supplement No. 1 to Senate Document No. 97, should reflect what users would be willing to pay for the opportunity to recreate if such fees were charged. Our analysis also noted ethnic characteristics of the population would influence the demand for recreation.

Concerning the navigation pool to be created at mile approximately 4 on the Yazoo River, our analysis noted that the report of the Vicksburg District stated that there are no reservoir-type recreation opportunities in or near the lower end of the Yazoo River. This is not so because of the availability of Ross Barnett Reservoir near Jackson, Mississippi. In fact, it is quite obvious that the recreational opportunities at Barnett Reservoir exceed those that can be expected from the navigation pool on the lower Yazoo River. Taking into account the availability of alternative sites, the lower level of personal income, and ethnic characteristics of the population, our analysis computed recreation benefits to be approximately \$200,000 annually. OCE in their comments endorse the recreation benefits computed by the Vicksburg District Engineer. They assert the use of \$1.25 per recreation day is supported by Supplement No. 1 to Senate Document No. 97. However, they made no attempt to determine whether users would be willing to pay \$1.25 per recreation day as required by the aforementioned document.

We also found that the Vicksburg District had overstated fish and wildlife benefits by \$24,400, with which the staff of OCE concurred.

INTEREST RATES

The Vicksburg District used an interest rate of $3\frac{1}{8}$ percent to compute project costs and benefits. Our analysis found that this interest rate is much too low and results in understating project costs and overstating project benefits. Since submission of the report, the interest rate used to evaluate water resource projects has been increased to $3\frac{1}{4}$ percent. The current yield on key long-term Treasury bonds is approximately $5\frac{1}{2}$ percent. The opportunity cost of capital is even higher. The use of a more realistic interest rate, for example, $5\frac{1}{2}$ percent, makes the project even less justified than our analysis found it to be.

It is of significance to note that President Johnson, in his Budget Message, stated the interest rate being used by the Federal agencies in formulating and evaluating proposed water resource projects is significantly lower than the cost of borrowing by the U.S. Treasury. President Johnson also stated that the Water Resources Council is developing a more appropriate interest rate for use in evaluating water resource projects. During the first week of May 1968, the U.S. Treasury borrowed money at an interest rate of 6 percent. Obviously if the subject project were analyzed using a realistic interest rate, the benefit-cost ratio would be substantially reduced.

Comments by the staff of OCE state the interest rate prescribed by the formula in Senate Document No. 97 was used. No attempt is made by the staff of OCE to support the level of the interest rate used to evaluate the project.

AREA REDEVELOPMENT BENEFITS

The Association of American Railroads supports the objectives of alleviating poverty wherever it exists. The area in which the proposed project is located is largely rural and is characterized by substantial rural as opposed to urban poverty.